

**COOPERATIVE AGREEMENT
BETWEEN THE
MINERALS MANAGEMENT SERVICE, DEPARTMENT OF INTERIOR
AND THE
STATE OF TEXAS GENERAL LAND OFFICE**

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I. BACKGROUND

The Minerals Management Service (MMS) and Texas General Land Office (GLO) propose to enter into a Cooperative Agreement (Agreement) to conduct a Joint Royalty-in-Kind (RIK) Pilot Project (Pilot) in which MMS will take and sell U.S. royalty gas production from offshore Texas attributable to the Federal royalty share of gas from certain leases made subject to Section 8(g) of the Outer Continental Shelf Lands Act (OCSLA). The MMS and GLO are collectively referred to herein as the "Parties."

A. PURPOSE OF THE AGREEMENT

The purpose of this Agreement is to provide the principles, procedures, obligations, and responsibilities that the Parties will utilize to conduct the Pilot. The intent of the Agreement is to develop a partnership in which the Parties' interests are concurrently fulfilled as the Pilot evolves. The overall purpose of the Pilot is to increase the royalty revenues of the Federal Government and State of Texas by taking natural gas royalties in-kind and marketing/selling the RIK volumes. Specific goals include:

- a. Testing methods of marketing/selling in-kind volumes;
- b. Testing methods of transporting in-kind volumes;
- c. Providing gas supply for internal customers;
- d. Increasing revenues while concurrently providing internal utility savings;
- e. Developing additional in-house gas marketing expertise;
- f. Investigating potential use of third-party energy marketing companies; and
- g. Examining the feasibility of using in-kind gas for conversion to electricity.

B. OBJECTIVES AND INTERESTS

The MMS and GLO will both provide expertise, resources, and management commitment in order to conduct the Pilot in a manner in which the interests of both Parties are fulfilled.

1. Interests of the Federal Government

- a. Increase revenues to the U.S. Treasury;
- b. Provide utility savings and gas supply to U.S. facilities;
- c. Investigate the success of various sales methods for RIK operations;
- d. Learn from the RIK expertise residing at GLO; and
- e. Assist Texas in their RIK programs.

2. Interests of the State of Texas

- a. Increase revenues from the State share of OCSLA 8(g) lease receipts;
- b. Increase revenues to the State Permanent School Fund;
- c. Provide utility savings/gas supply to State facilities and other public entities; and
- d. Assist the Federal Government in their RIK programs.

II. SCOPE OF WORK

A. MAGNITUDE

The Pilot will commence with a subset of RIK production from 8(g) leases offshore Texas. The Parties anticipate that the leases and royalty volumes involved under this Agreement will increase as the project matures. All leases to be involved under this Agreement will be jointly selected by the Parties. Concurrent with the term of this Agreement, the Parties may independently evaluate and test other opportunities for the marketing/sales of royalty natural gas.

B. CONCEPTS/METHODS TO BE TESTED

The MMS and GLO anticipate that a variety of methodologies to dispose of royalty gas volumes will be tested, including but not limited to the following:

- a. Marketing/sales of gas to State agencies or other public entities;
- b. Marketing/sales of gas to Federal Agencies, institutions, or facilities;
- c. Marketing/sales of gas to non-governmental entities;
- d. Marketing/sales of gas by utilizing marketing agents or consultant(s);
- e. Exchange of gas volumes to reduce transportation charges; and
- f. Exchange of gas to electricity and associated marketing/sales.

C. ROLES

1. Federal Government Roles

The Federal Government will perform and have primary responsibility for the following activities:

- a. Publish any Federal regulations needed;
- b. Obtain any necessary approvals within the MMS or other Federal agencies;
- c. Identify Federal natural gas purchasers;
- d. Collect and disburse RIK sales revenues;
- e. Place one MMS employee in GLO offices to assist in project operations;
- f. Provide computer access to gas index databases for MMS employee at GLO;
- g. Perform final approval and execution of all contracts
- h. Serve as liaison with and respond to Federal oversight entities; and
- i. Prepare monthly status and other reports, as necessary, to MMS management.

Negotiation of sales contracts is a joint responsibility of both Parties; however, it is MMS' role for final approval and execution of all contracts. The GLO may also be involved in any or all of the above activities in an advisory role.

2. State of Texas Roles

The GLO, with MMS employee participation in the Austin office, will perform and have primary responsibility for the following activities:

1. Provide market and transportation expertise/support for the Pilot;
2. Identify State end-user customers;
3. Collect data necessary to invoice customers and verify volumes;
4. Conduct primary negotiation of transportation contracts;
5. Nominate, schedule, ship, balance, and verify royalty volumes;
6. Invoice purchasers; and
7. Submit electronic sales reports to MMS in Lakewood, Colorado.

The MMS may also be involved in any or all of the above activities in an advisory, concurrence, or approval role.

III. PERIOD OF PERFORMANCE

The period of performance of this Agreement shall be from November 1, 1998, through October 31, 2000. The period of performance may be extended upon the agreement of MMS and the GLO by modification issued by the Contracting Officer. This Agreement may be terminated by written notice of the intent to terminate, given no less than 60 days prior to termination.

IV. REPORTS

A. BUSINESS MANAGEMENT PLAN

Both the MMS and GLO shall adhere to the Business Management Plan attached as Exhibit A. The plan summarizes elements relating to the management of the Texas OCSI A 8(g) RIK gas marketing activities.

B. MONTHLY STATUS LETTERS

The MMS onsite employee at the GLO offices in Austin will prepare and submit monthly status letters to the MMS Project Officer and GLO Deputy Commissioner for Energy Resources as per the schedule below. The GLO Energy Resources Division shall furnish to the MMS onsite FTE such typing and secretarial support as may be required for the preparation of the monthly status reports.

The status letters as prepared by the MMS onsite FTE will be in sufficient detail to disclose all work accomplished and results achieved during the month and will include a brief discussion of the planned actions for the succeeding month. All problems encountered will be identified;

their scheduling impacts, if any, and any actions taken to ameliorate them will be discussed in the monthly status letters. Upon request, the GLO's Energy Resources staff shall provide such information and documentation as is reasonably necessary for the MMS onsite FTE to prepare the monthly status reports.

C. FINAL REPORT (DRAFT)

The MMS onsite FTE will be responsible for preparation and submission of the Final Report (Draft). Upon request, the GLO shall cause its Energy Resources Division staff to provide such information, documentation, typing and secretarial support as is reasonably necessary for the MMS onsite FTE to prepare the draft of the Final Report.

Upon receipt of same, the GLO will have thirty (30) days to: (i) review the draft Final Report as prepared by the MMS onsite FTE; and (ii) notify the MMS onsite FTE of any changes, corrections, and additions which the GLO believes should be made to the draft Final Report. The draft Final Report, as prepared by the MMS onsite FTE and reviewed by the GLO, will then be submitted to the MMS Editorial Staff as per the schedule listed below.

D. FINAL REPORT (FINAL VERSION)

The MMS onsite FTE to the extent necessary will incorporate into the Final Report (final version) any revisions, corrections or additions made by the editorial staffs of the MMS and GLO. If there are any disagreements between the MMS and GLO editorial staffs, the Final Report (final version) shall endeavor to report the dissimilar positions of the parties with respect to substantive and material matters.

The MMS onsite FTE will deliver two (2) unbound high-quality run master and additional copies of the Final Report (final version) to both the MMS and GLO as specified in the schedule below. This Final Report (final version) will be submitted in hard copy (paper) format as well as in a digital version (3 ½ inch diskette with IBM compatible WordPerfect file) as approved by MMS Project Officer and GLO Deputy Commissioner-Energy Resources.

E. TECHNICAL SUMMARY (FINAL)

The MMS onsite FTE will incorporate into the Technical Summary (final version) the comments, recommendations, corrections, and suggestions of the editorial staffs of the MMS and/or GLO. If there are any disagreements between the MMS and GLO editorial staffs, the Technical Summary(Final version) shall endeavor to report the dissimilar positions of the parties with respect to any substantive and material matters. This Technical Summary (final version) will be submitted in hard copy (paper) format as well in a digital version (3 ½ inch diskette with IBM compatible WordPerfect file) as approved by the MMS Project Officer and GLO Deputy Commissioner-Energy Resources.

F. CORRESPONDENCE

All correspondence and reports pertaining to this Agreement as prepared by either the MMS onsite FTE or GLO Staff, will have copies (with attachments) sent to the MMS Project Officer,

GLO Deputy Commissioner-Energy Resources and GLO Manager-Energy Marketing, according to the schedule listed below. All correspondence and reports will be clearly marked on the first page so as to reference both the MMS Cooperative Agreement number and GLO Contract Number, as marked on the first page of this Agreement. The following schedule will be used:

Deliverable	Distribution	Due Date
A. Program Management Plan Updates	MMS Contracting Officer--1 copy MMS Project Officer-- 3 copies MMS FTE--1 copy GLO Deputy Commissioner, Energy--1 copy GLO Manager, Energy Marketing--3 copies	Promptly after any event is known which is expected to change any aspect of the approved plan.
B. Monthly Status Letters	MMS Contracting Officer--1 copy MMS Project Officer-- 3 copies MMS FTE--1 copy GLO Deputy Commissioner, Energy--1 copies GLO Manager, Energy Marketing--3 copies	On or before the 15th day following the month to which the status letter applies.
C. Final Report (Draft)	MMS Contracting Officer—cover letter only MMS Project Officer-- 3 copies MMS FTE--1 copy GLO Deputy Commissioner, Energy--1 copy GLO Manager, Energy Marketing--3 copies	Within 10 days after the GLO Staff has received the draft Final Report and notified the MMS FTE of any changes, corrections and additions.
D. Final Report (Final Version)	MMS Contracting Officer—cover letter only MMS Project Officer-- 3 hard copies & 1 <i>electronic copy</i> MMS FTE--1 hard copy & 1 <i>electronic copy</i> GLO Deputy Commissioner, Energy--1 hard Copy GLO Manager, Energy Marketing--3 copies hard copies & 1 <i>electronic copy</i>	Within 30 days after the editorial staffs of both the MMS and GLO have completed their review of the draft Final report and provided their comments and any suggested revisions.
E. Correspondence	MMS Contracting Officer--1 copy MMS Project Officer-- 3 copies MMS FTE--1 copy GLO Deputy Commissioner, Energy--1 copy GLO Manager, Energy Marketing-- 1 copy	MMS or GLO originated correspondence, mailed on same day. Third-party originated correspondence, with one week of receipt by the MMS or GLO, as applicable.

V. CONFLICT RESOLUTION

Any disputes between the Parties concerning the activities conducted under the Pilot will be initially addressed by the MMS Project Officer and GLO Deputy Commissioner for Energy Resources. Resolution from the MMS Director and Texas Land Commissioner will be sought, if needed.

VI. PROJECT OFFICERS

The MMS Project Officer for this Agreement is Gregory Smith (See address below). The MMS Project Officer will administer the technical aspects of this Agreement and inspect the GLO's work for compliance with the Program Management Plan and other requirements for the Pilot.

The GLO Manager of Energy Marketing is Dennis Miller (See address below). The GLO Manager, Energy Marketing will administer the technical aspects of this Agreement for the GLO and direct and inspect the work of the MMS onsite FTE with respect to the Pilot.

Both the MMS Project Officer and GLO Manager of Energy Marketing shall manage the Pilot Activities and address the issues needing the joint attention of the Parties. In addition the MMS Director and Texas Land Commissioner will each designate an executive level point of contact to provide oversight and senior management policy direction and decision making.

Neither the MMS Project Officer nor the GLO Manager of Energy Marketing have any authority to modify the terms and conditions of this Agreement, including specifications which may change the Agreement or period of performance. Any modifications, revisions or amendments to this Agreement shall not be binding except pursuant to a written instrument executed by both the MMS Director and the Texas Land Commissioner.

The addresses for key personnel are as follows:

MMS Project Officer:

Gregory Smith
Minerals Management Service
U.S. Department of the Interior
P.O. Box 3750
Denver, Colorado 80225-0165
Tel: (303) 275-7102
Fax: (303) 275-7124
E-mail: gregory.w.smith@mms.gov

GLO Manager, Energy Marketing:

Dennis Miller
Energy Resources
Texas General Land Office
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, Texas 78701-1495
Tel: (512) 463-6999
Fax (512) 475-1404
E-mail: dmiller@glo.state.tx.us

MMS Contracting Officer:

Michael Del-Colle
Procurement Operations Branch
Minerals Management Service
U.S. Department of the Interior
381 Elden Street, MS 2500
Herndon, Virginia 20170-4817
Tel: (703) 787-1373
Fax: (703) 787-1387
E-mail: Michael.Del-Colle@MMS.GOV

GLO Deputy Commissioner:

Mr. Kerry Overton
Energy Resources
Texas General Land Office
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, Texas 78701-1495
Tel: (512) 305-9629
Fax: (512) 475-1543
E-Mail: KOverton@GLO.State.TX.US

VII. ASSURANCES


Both the MMS and GLO hereby assure and certify that they will comply with applicable Federal and State of Texas regulations, policies, and guidelines. Nothing contained in this Agreement is intended to confer upon any person, governmental agency, or entity not a party hereto any rights, claims or benefits, or to otherwise apply to same. This Agreement shall never be construed so as to deprive the Parties, any official or employee of the United States or the State of Texas, of any sovereign, governmental, qualified, individual or other immunity at Federal and Texas law, all such immunities being expressly reserved.

This Agreement, including Exhibit A, constitutes the entire agreement of the Parties with respect to the Pilot. All prior understandings and arrangements are superseded. Each Party shall have access to examine all data and materials generated during the conduct of the Pilot.

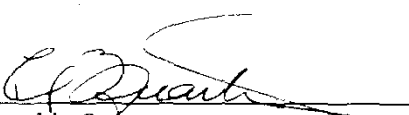
In Witness whereof, both Parties have executed this Agreement, effective as of the last executed date below.

Texas General Land Office

Minerals Management Service

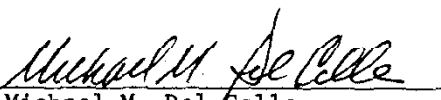

Garry Mauro
Commissioner

Dated: OCT 13


Cynthia Quarterman
Director

Dated: OCT 19 1998

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Michael M. DelColle
Chief, Procurement & Support
Services Division